

DRAFT

**CASE HISTORY: PRIVATE SECTOR
STOCKTAKING**

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EXECUTIVE SUMMARY

In 1981 the current administration first advocated emphasizing the role of the private sector in development, later asserting that support of the private sector would constitute the core of U.S. foreign aid policy. By the summer of 1985, AID had been criticized by the press and by Congress for failing to implement administrative policy. In order to demonstrate AID's efforts in development and support of the private sector, a cable was sent to all Missions requesting information on private sector projects. The cable responses were inconsistent, often lacked crucial information, and were not comparable across Missions. Nevertheless, a consulting firm prepared a report based on the responses.

When Dwight Ink became LAC Assistant Administrator in October 1985, he assigned Bob Otto the task of conducting a private sector stocktaking exercise. It was at this stage that a serious problem with the exercise developed: miscommunication between Mr. Ink and Mr. Otto concerning the nature of the task. Mr. Ink wanted an evaluation documenting LAC private sector activities, focusing on implementation with recommendations for future action, whereas Mr. Otto believed Mr. Ink had asked him to conduct a gap analysis.

Aided by consultants from two firms, Bob Otto analyzed a wide variety of cable responses and project documents. The team encountered many obstacles, including the lack of definition of "private sector project," inconsistent reporting methods, and unobtainable or incorrect information. Data gathering and analysis began in October 1985 when Mr. Otto went through responses to the private sector cable categorization. He was joined by the consultants in early December. By the end of December, Bob Otto determined that he needed more information and dispatched a cable to the LAC Missions. Response was slow and the consultants

finished their reports by January 18, 1986, without benefit of the cable responses. Bob Otto incorporated cable responses into his February report and subsequent presentation to the Assistant Administrator. Mr. Ink then requested an action plan, which was written in March or April by Bob Otto and two of the consultants. It was completed in May. In early July the new head of LAC private sector programs was briefed on the private sector stocktaking exercise.

Due to the miscommunication, the various actors in the exercise have widely differing perceptions of the private sector stocktaking. The Assistant Administrator was dissatisfied with the exercise because he was presented with a gap analysis instead of the information he needed to refute outside criticism. The implementors were highly frustrated because of the difficulty or impossibility of obtaining information necessary to a gap analysis, and the incoming Chief of the Private Sector Office perceived the exercise differently than either the Assistant Administrator or implementors.

INTRODUCTION

The purpose of this exercise is to detail an example of an ad hoc request for a specialized database in order to illuminate AID's process of information gathering, reporting, and origin of a database. The information for this case study was gathered through perusal of private sector stocktaking reports and through interviews with the policymakers concerned with the exercise and implementors of the exercise. On July 1, 1986, July 2, and July 11, the consultant talked with Bob Otto, former Chief of the Private Sector Office and the person responsible for the stocktaking exercise. On July 11, 1986, and July 15, 1986, the consultant spoke with Aaron Williams, the new Chief of the Private Sector Office, and the person responsible for concluding the stocktaking. On July 9, 1986, the consultant talked with Robin Andrews, of Coopers and Lybrand, a consultant to the private sector stocktaking exercise who acted as a research assistant. On July 11, 1986, the consultant spoke with Rob Wagner, of the consulting firm Arthur D. Little, who was one of the senior management consultants to the exercise. On July 11, 1986, the consultant interviewed Dwight Johnson, who had been asked by the LAC Assistant Administrator to participate in the stocktaking exercise. On July 14, 1986, the consultant talked with Dwight Ink, LAC Assistant Administrator and the initiator of the exercise. The case history is divided into six sections: Introduction, Background, Description of the Stocktaking Exercise, Perceptions of Problems by Exercise Implementor, Perceptions of Problems by LAC Policy-makers, and Problem Statement from incoming Private Sector Office Chief.

BACKGROUND

In 1981 the administration launched a private sector initiative. By 1985 the entire agency's activities in encouraging increased participation by the private sector in development had been criticized as ineffective. A newspaper article appearing in June or July 1985 attacked AID, stating that AID was incapable of carrying out a private sector initiative and, in fact, was not implementing this policy. Perhaps because of the newspaper article, but certainly due to the large amount of funds involved, the administrator began to receive complaints and queries from members of Congress who wished to know whether or not a private sector initiative existed and how the money allocated to private sector projects was being spent.

The agency's response was to send out a cable to all Missions requesting information on private sector activities in their countries. The cable, authored by Neil Zank, was sent in October 1985 and was almost universally criticized as being too vague. As Missions began to respond, the deficiencies in the cable became increasingly apparent. The information contained in the responses varied greatly from one Mission to another and the information was, to a large extent, not comparable between Missions. The cable was intended to elicit all projects with private sector components, but some Missions submitted descriptions only of projects funded by private sector initiative money; other Missions also reported on overlapping projects that had an effect on the private sector. Still other Missions worked frantically to categorize all their projects in terms of whether and how they encouraged the private sector; these Mission personnel, having never before

been asked to categorize their projects in this way, worked nights and weekends to get the report out. PPC hired a firm (Keene, Monk and Associates, Inc.) to go through the cable responses and write a report.

When Dwight Ink became Assistant Administrator of LAC in October 1985, he recognized three priorities based on the administration's goals: the Central American Initiative, Caribbean Basin Initiative, and Private Sector Initiative. The private sector was especially important, as the administration had announced that this was the core of their foreign aid policy. The Assistant Administrator was new not only to LAC, but to AID as well, although he had a long management career in other government agencies. Mr. Ink requested stocktaking exercises of the three initiatives. He felt he needed these for several reasons: 1) he was new and wanted to become acquainted with the major foci of the bureau; 2) the administration emphasized these three areas and no stocktaking had ever been done; 3) occasional stocktaking exercises were part of his administrative style; and 4) he felt that AID evaluations were too project-focused and that there was no big picture.

Shortly before Dwight Ink assumed his position, Bob Otto was appointed head of the LAC Private Sector Initiative. Almost immediately after he became Assistant Administrator, Dwight Ink initiated the stocktaking exercises and, along with Malcolm Butler, asked Bob Otto to prepare the stocktaking exercise for the private sector. Mr. Otto was requested to look at the history, benchmarks, and action plans in order to develop a road map for the future. Mr. Ink asserted that he intentionally provided the people charged with carrying out the exercise with few guidelines and little information on what kind of product he expected, as he

wanted to see how his personnel would respond to the assignment. Nevertheless, he had expectations about the kind of reports he desired.

PRIVATE SECTOR STOCKTAKING EXERCISE

Bob Otto began by analyzing LAC Mission responses to the Zank cable. He attempted a congruency analysis and was helped in this effort by some of the LAC desk officers. Bob Otto became increasingly alarmed as the realization dawned that the responses were not reliable and could not be compared. He called Dwight Ink at home on a Sunday afternoon with the news that the data were unreliable and requested Mr. Ink to keep the report on the data internal and not to disseminate it. Dwight Ink asked for a memo to that effect, which Mr. Otto sent on Monday morning.

In October, when Mr. Ink had asked Bob Otto to conduct the analysis, Mr. Otto lined up consultants from the firms of Arthur D. Little (an old management and scientific consulting company) and Coopers and Lybrand (a newer consulting firm). In November 1985 Bob Otto conferred with Dr. Humberto Esteve of Arthur D. Little, the senior management consultant, to arrive at a definition of private sector project. This was necessary as there had been no agency-wide or LAC definition, resulting in the great variety of responses to the Zank cable on private sector projects.

In early December 1985 Mr. Otto hired the consultants: three management consultants from Arthur D. Little and two research assistants from Coopers and Lybrand. In addition, one short-term consultant was selected. The entire team examined project documents for LAC projects to determine if there was a private sector component. Project documents included: CDSSs, Action Plans, FY 1986 and FY 1987 Congressional Presentations, PPC Categorization Cables (i.e., responses to Mr. Zank's cable), CBI Strategy Documents, a report entitled "Activities of the Agency for International Development in Support of the CBI, USAID Development Information System, Project Papers, PIDs, AID Private Enterprise Development Policy Paper, LAC Strategy Plan, LAC Mission Semi-Annual Reports (SARs), and field responses to other AID/Washington cables. Based on a data analysis of the documents, the team derived seven categories of private sector activities: (1) policy reform, (2) capital formation and mobilization, (3) export and investment promotion, (4) micro-small-medium enterprise development, (5) housing/land purchase financing, (6) privatization (a category inserted by Dwight Ink), and (7) private sector training and skills development. Bob Otto decided to omit the seventh category, as the results of training are not immediate and therefore not amenable to a quick gap analysis evaluation.

In December it was also necessary to determine which projects fit the definition of private sector project. The entire team held meetings during which they read aloud each project's name and description and decided which belonged to the private sector. They initially had 383 projects classified as private sector according to the Zank categorization cable responses, but their classification

process reduced the number to 130 projects. The team eventually picked up 11 additional projects and then discovered that four ESF projects had been deleted in the 1987 CP. The final number of private sector projects was thus 137.

During December 1985 and early January 1986 the team went through all the documents in detail. The researchers had no office, so they borrowed a trolley from the library, filled it with all the documents, and shuttled from one temporarily vacant conference room to another. The team classified projects on 30-column ledger sheets. First they categorized projects by country; they set up columns to include project title, predominant category (from the list of six), secondary category, and amount authorized (they tagged ESF funded projects). Next they classified projects by category on a separate ledger sheet. The columns on this sheet represented project title, one-sentence description, country, project number, FY of implementation, LOP funding. The funding was divided into public sector direct, public sector as intermediary, USAID internal management, private sector for profit, and private sector non-profit. A third ledger sheet also classified projects by categories, with columns for country, project number, date of initiation, PACD, LOP funding, and total expenditures to date (derived from the last SAR). Finally, a fourth ledger sheet added project objectives and Mission's performance evaluation (from the last SAR). This process took "a couple of weeks," but the team worked intermittently because of the intervening holidays.

On December 23, 1985, Bob Otto sent a cable to all LAC Missions requesting additional information because even with the Zank categorization cable and all the project documents there were large gaps in the data and many inconsistencies. Missions were asked to provide information on each project in their countries that

the team had identified as private sector. They were to provide information on private sector policy reforms gained, new investments in the private sector, employment created, additions to exports in the nontraditional sector, private sector institutions created, and a category termed "other." For each of these categories the cable requested information by "planned at origination," "actual to date," and "forecasted by the end of FY 1987." The cable designated the response date as January 8. By January 8, however, only one Mission had responded.

The consultants could not wait for the remainder of the cables to dribble in to write their report. The two Coopers and Lybrand research assistants prepared appendices of tables and graphics, while the team from Arthur D. Little wrote the text, with some assistance from the Coopers and Lybrand research assistants. They produced three reports: Volume I Phase I, Volume II Phase I, and Volume I Phase II. The date of publication is January 28, 1986 for all three. The consultants had required more than 80 person-hours to complete the entire task.

The cable responses slowly trickled in throughout January. Bob Otto conducted a content analysis of them and plugged the information into the ledger sheets. Responses to the Otto cable also varied: some Missions responded to what was asked; others attempted to justify their programs.

In January 1986 Bob Otto sent out another cable to Mission directors asking private sector officers to conduct informal interviews with AID/LAC clients to determine how clients regarded the LAC private sector program. He performed a content analysis of the cable responses. In January Bob Otto also brought in four private sector officers from the field (from the Dominican Republic, Costa Rica, R.O.C.A.P., and El Salvador). They discussed personnel and operating functions.

In February 1986 Bob Otto wrote his report of the private sector stocktaking exercise, incorporating the December and January cable responses, consultants' reports, and discussions. In February or March Bob Otto made a presentation, complete with slides and graphics, to Dwight Ink. Mr. Ink requested more details on the implementation of Mr. Otto's recommendations. He wanted more of an action plan than Bob Otto had presented.

In March or April 1986 Bob Otto and two of the consultants from Arthur D. Little wrote an action plan outlining action plan objectives and programs and describing each program in great detail. On May 6, 1986 they completed rewriting and editing the action plan and the action plan bears this date.

On July 10, 1986, two of the Arthur D. Little consultants met with Bob Otto and Aaron Williams, the replacement for retiring Bob Otto, to brief Mr. Williams, go over the action plan, and get feedback.

PERCEPTIONS OF PROBLEMS BY EXERCISE IMPLEMENTORS

The entire exercise was fraught with great difficulty and appeared to create dissension within AID/LAC. Difficulties in completing the exercise fall into three categories: problems in obtaining data, unreliability or inconsistency (data that should have been comparable but were not), and incorrect data. In addition, opposition to the methodology used by Bob Otto to categorize and analyze data or opposition to the whole exercise led some personnel to withhold project papers or submit data haphazardly or late. Some data, such as Project Papers, that should

have been at AID/Washington, were not. Data on the Data Information System (DIS) were incorrect or often missing, rendering the DIS useless for this exercise. The LAC library of project papers was also incomplete; other necessary information that "should" have been included in reports, was not (e.g., reports included almost no information on project implementation and results, and ESF projects were extremely difficult to track). Consequently, Bob Otto found a true gap analysis impossible to perform as his baseline data contained large lacunae and he had little information on project outcomes in terms of meeting project and AID objectives and goals. Furthermore, he found projects often either confused or lacking in goals or intermediate objectives. A gap analysis requires that progress to date be subtracted from goals and objectives. The resulting difference is the "gap." His findings, which some characterized as overly negative, brought into question the future of the stocktaking exercise. Some LAC personnel, however, including Mission personnel, welcomed the findings; the reception was by no means uniform.

PERCEPTIONS OF PROBLEMS BY LAC POLICYMAKERS

Mr. Ink had a preconceived idea about the kind of product he wanted from the stocktaking exercise and his idea definitely did not include a gap analysis. The Assistant Administrator wanted to get advice from those working in the private sector in AID host countries, including people within and outside of AID on their perceptions of AID's private sector activities. He wanted an evenhanded approach to AID's private sector programs and believed that he certainly had not asked for

a gap analysis. He wished the emphasis of the exercises to be on where to go—particularly recommendations of how to implement a more aggressive program. Both Mr. Ink and the Administrator felt that LAC was doing much more in the private sector than it was getting credit for and Mr. Ink wanted to document this.

Mr. Ink considers the exercise to be incomplete and unsatisfactory. He has asked Aaron Williams, incoming Chief of the LAC private sector office, to take over the stocktaking, including proposing better recommendations and ensuring that the exercise achieves a better balance by examining what has been accomplished and what LAC activities look promising.

The AID administration has in the past been subject to criticism from Congress and the National Security Council for its handling of the private sector initiative. At this time such faultfinding is in abeyance, but Dwight Ink anticipates its recurrence. The stocktaking exercises should help to answer such criticism. Mr. Ink feels that the private sector stocktaking exercise in its present form cannot be used for this purpose; he is, however, quite pleased with the outcome of the two other stocktaking exercises.

Mr. Ink expressed several wishes for additional information. He believes that AID is not sufficiently involved in the private sector to know how to reach out to the private sector (including information gathering). He would also like to know "the extent to which privatization goals are being met"—from micro level to multinational companies—and progress toward divestiture. Finally, he requires information on how LAC is achieving its goals in the private sector initiative; for example, if the ESF goal is three divestitures per year, these should be tracked. He suggests measuring results by macroeconomic indicators.

PROBLEM STATEMENT FROM INCOMING PRIVATE SECTOR OFFICE CHIEF

Mr. Aaron Williams, who replaces retiring Bob Otto as Chief of the Private Sector Office, was present at the interview with Mr. Ink and later spoke to him at length about the private sector stocktaking exercise. Mr. Williams discussed his thoughts on the exercise with Richard Barrett, Kerrin Frame, and Laurie Krieger. He felt that the private sector stocktaking suffered from several problems: AID never had a well-defined private sector plan and made no announcement of a private sector initiative; AID focuses on project design, rather than implementation, because AID is primarily concerned with disbursement of funds, but Mr. Ink wanted a report that focused on implementation; and AID does not have clearly defined goals and objectives for the private sector. The most obvious and fundamental problem was one of miscommunication: Bob Otto perceived that Dwight Ink asked him to perform a gap analysis, while Dwight Ink believed that he had asked Bob Otto to carry out a stocktaking that combined evaluation with recommendations for implementation. On another level, Mr. Williams believes that Bob Otto felt pressured to quantify his findings, but the presence of so many numbers in the report confused the issue.

Mr. Williams supplied additional information on the exercise. He was one of the LAC private sector officers brought in from the field to attend Mr. Otto's January meeting. The meeting was intended to confirm the information contained in the penultimate draft of the private sector stocktaking report. They confirmed the information and also discussed a great many other aspects of the private sector.

Dwight Ink had criticized a preliminary draft of the report because he wanted input from both U.S. and foreign private sector entities on their perceptions of AID's private sector activities, which the report did not provide. In response to the criticism and his perception of pressure from Messrs. Ink and Butler to bring the exercise rapidly to conclusion, Mr. Otto contacted members of the U.S. private sector through the Agribusiness Council, with whom he met. He chose the Agribusiness Council because it was one of the few consortia in the private sector whose members were acquainted with AID's activities. Bob Otto also asked Missions to conduct a survey of LAC private sector actors in their host countries. The field Missions conducted a survey of 20-30 private sector entities per country, a considerable number given the sizes of the host countries.

As Mr. Williams is now responsible for concluding the stocktaking exercise, he expressed the desire to become familiar with Dwight Ink's views and wishes on the subject. He also suggested that objectives should focus on specific aspects of the private sector; for example, the climate for investiture. There are, he said, specific projects that contribute to these private sector sections.

SOURCES:

INTERVIEWS:

Dwight Ink, AA/LAC
Aaron Williams, LAC/DR
Dwight Johnson, AA/LAC
Bob Otto, LAC/DR
Robin Andrews (Coopers and Lybrand)
Rob Wagner (Arthur D. Little)

DOCUMENTS:

PPC Report Analyzing Morris (Zank) Cable Responses: Categorizing AID's Use of the Private Sector. Statistical Data Report (compiled by Keene, Monk and Associates, Inc.)

Evaluation of Private Sector Programs USAID/LAC Phase I—Analysis of Current Portfolio—Volume I (compiled by Arthur D. Little)

Appendix A—Methodology Summary (Vol. 1)

Evaluation of Private Sector Programs USAID/LAC Phase II—Integrated Recommendations/Results Evaluation (compiled by Arthur D. Little)

Report of Findings of the LAC Private Sector Program Stocktaking Exercise (Draft) (compiled by Bob Otto).

CABLES:

Morris (Zank) October 1985
Categorizing AID's Use of the Private Sector

Otto December 1985
Private Sector Program (PSP) Stocktaking And Action Planning Exercise